

General Information Letter: No Illinois withholding or information reports are required for payments subject to backup withholding under IRC Section 3406.

December 10, 2002

Dear:

This is in response to your letter dated October 1, 2002 in which you state the following:

COMPANY requests written documentation on the information reporting requirements of your state for tax year 2002. We specifically need requirements for reporting miscellaneous income that is reported to the Internal Revenue Service on federal form 1099-MISC. These would be payments made in the course of our business to individuals or companies that are not employed by COMPANY but supply services to us.

If your state requires that COMPANY report this payment please send the supporting documentation. COMPANY does participate in the Combined Federal/State Filing Program. If your state participates in this program, please let us know. Also, inform us if you require formal notification that we will be participating in this program. If we do not receive documentation from your state, we will assume that you do not require this information.

In addition, please include any documentation on miscellaneous income backup withholding requirements that your state may have. The Internal Revenue Service requires that we withhold 30% of any payments made to a vendor if we are notified by the IRS that the vendor has provided incorrect tax information. (such as an incorrect tax payer identification number or incorrect business name) If you state has any regulations that would require COMPANY to withhold partial payment from any of our vendors, please let us know.

According to the Department of Revenue ("Department") regulations, the Department may issue only two types of letter rulings: Private Letter Rulings ("PLR") and General Information Letters ("GIL"). The regulations explaining these two types of rulings issued by the Department can be found in 2 Ill.Adm.Code §1200, or on the website <http://www.revenue.state.il.us/legalinformation/regs/part1200>.

Due to the nature of your inquiry and the information presented in your letter, we are required to respond with a GIL. GILs are designed to provide background information on specific topics. GILs, however, are not binding on the Department.

Prior to August 20, 1995, the Illinois Income Tax Act ("IITA") required informational reporting on Form IL-1096 for the following types of income:

1. Certain rent and royalty payments (IITA Section 1405.1),
2. Certain payments made under contracts for personal services (IITA Section 1405.2), and
3. Certain payments of prizes and awards (IITA Section 1405.3).

However, Public Act 89-399 eliminated the requirement to file informational returns for the above mentioned types of income. The reporting party is instead required under each of those sections to maintain a record of qualifying payments in a format in which the record is available to review by the Department. Enclosed please find a copy of the relevant IITA sections for your review.

Illinois does not participate in the Combined Federal/State Filing Program.

The "backup withholding" you described is required by Section 3406 of the Internal Revenue Code ("IRC"). IITA Section 701(e) states that no withholding is required on payments for which withholding is required under Section 3406 of the IRC. As such, COMPANY is not required to withhold Illinois tax from your vendors under circumstances requiring withholding under Section 3406 of the IRC.

As stated above, this is a general information letter which does not constitute a statement of policy that either applies, interprets or prescribes tax law. It is not binding on the Department. If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

As stated above, this is a general information letter which does not constitute a statement of policy that either applies, interprets or prescribes tax law. It is not binding on the Department. Should you have additional questions, please do not hesitate to contact our office.

Sincerely,

Matthew S. Crain